

ANNUAL REPORT



CONTAINER CORPORATION OF AMERICA

CHICAGO, ILLINOIS

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FISCAL YEAR ENDED DECEMBER THIRTY-FIRST



MARCH 28, 1939

CONTAINER CORPORATION OF AMERICA

MILLS CARTHAGE, INDIANA
 CHICAGO, ILLINOIS
 CIRCLEVILLE, OHIO
 FERNANDINA, FLORIDA
 KOKOMO, INDIANA
 MARION, INDIANA
 PHILADELPHIA, PENNSYLVANIA
 WABASH, INDIANA

FACTORIES ANDERSON, INDIANA
 CHICAGO, ILLINOIS
 CLEVELAND, OHIO (leased)
 CINCINNATI, OHIO
 NATICK, MASSACHUSETTS
 PHILADELPHIA, PENNSYLVANIA

BRANCH AND SALES OFFICES ANDERSON, INDIANA
 BALTIMORE, MARYLAND
 CHICAGO, ILLINOIS
 CINCINNATI, OHIO
 CLEVELAND, OHIO
 DETROIT, MICHIGAN
 INDIANAPOLIS, INDIANA
 LOUISVILLE, KENTUCKY
 MINNEAPOLIS, MINNESOTA
 NATICK, MASSACHUSETTS
 NEW YORK, NEW YORK
 PEORIA, ILLINOIS
 PHILADELPHIA, PENNSYLVANIA
 PITTSBURGH, PENNSYLVANIA
 ROCHESTER, NEW YORK
 WABASH, INDIANA

OPERATING SUBSIDIARY PIONEER PAPER STOCK COMPANY
 Plants (all leased) located at
 CHICAGO, ILL., KALAMAZOO, MICH.,
 PHILADELPHIA, PA.

AFFILIATED COMPANY SEFTON FIBRE CAN COMPANY, ST. LOUIS, MO.

111 WEST WASHINGTON STREET, CHICAGO

DIRECTORS WILLIAM R. BASSET, New York, New York
J. J. BROSSARD, Chicago, Illinois
HENRY B. CLARK, Chicago, Illinois
WESLEY M. DIXON, Chicago, Illinois
JOHN L. DOLE, Chicago, Illinois
GEORGE DEB. GREENE, New York, New York
WILLIAM P. JEFFERY, New York, New York
WALTER P. PAEPCKE, Chicago, Illinois
J. V. SPACHNER, Chicago, Illinois

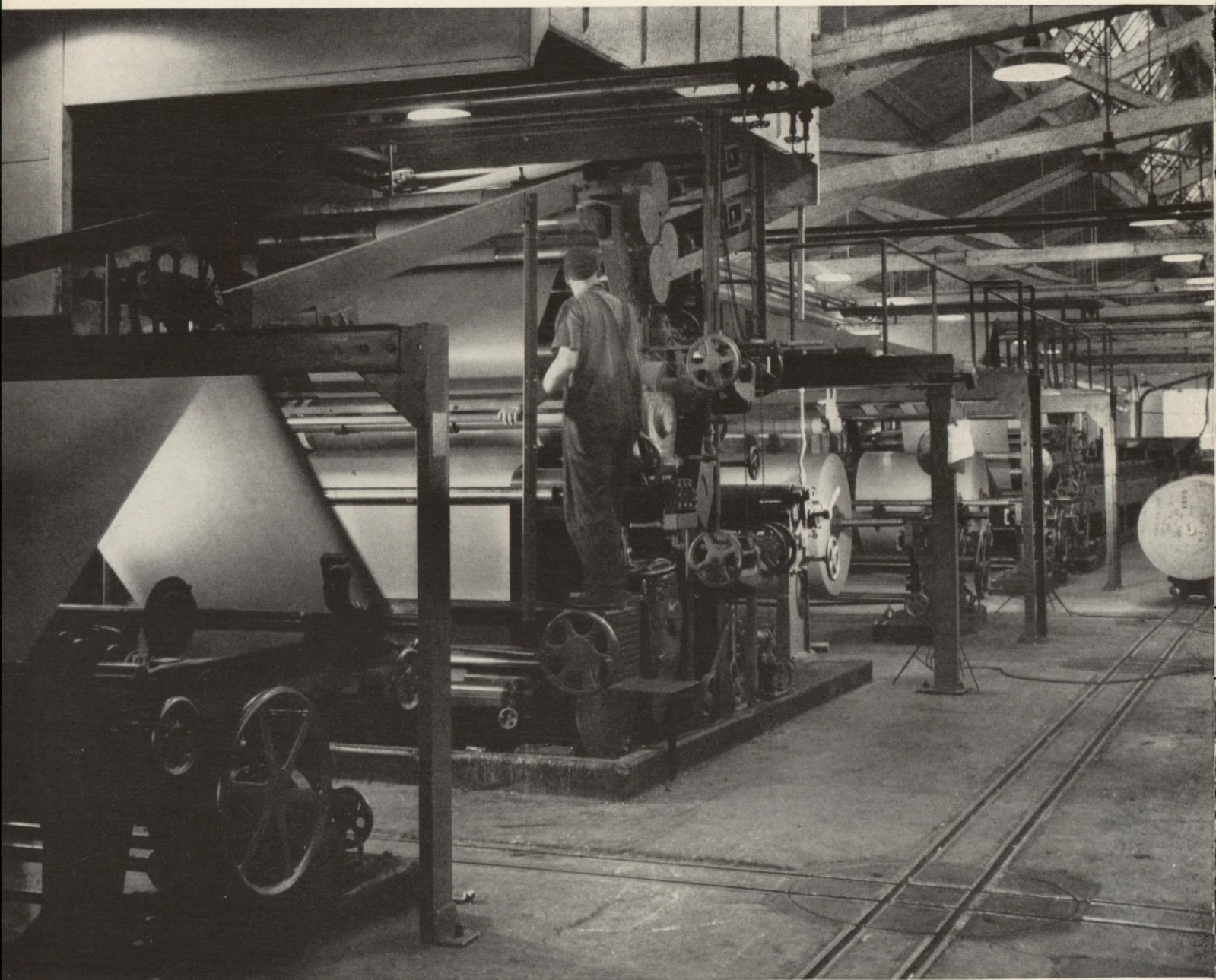
EXECUTIVE COMMITTEE WILLIAM R. BASSET
WILLIAM P. JEFFERY
WALTER P. PAEPCKE

OFFICERS President, WALTER P. PAEPCKE
Vice President, J. J. BROSSARD
Vice President, WESLEY M. DIXON
Treasurer—Comptroller,
H. C. BAUMGARTNER
Secretary, E. A. WAGONSELLER
Assistant Treasurer, CHRIST MADSEN
Assistant Secretary, L. A. COMBS

TRANSFER AGENTS CONTAINER CORPORATION OF AMERICA,
Chicago, Illinois
CITY BANK FARMERS TRUST COMPANY,
New York, New York

REGISTRARS CONTINENTAL ILLINOIS NATIONAL BANK AND
TRUST COMPANY, Chicago, Illinois
THE CHASE NATIONAL BANK OF THE CITY OF
NEW YORK, New York

ANNUAL REPORT



Eighty-five-inch Langston corrugating unit with duplex corrugator installed late in 1938 at Manayunk, Philadelphia. This machine is capable of producing over 135,000 square feet of double faced corrugated paperboard per hour.

CONTAINER CORPORATION OF AMERICA

CHICAGO, ILLINOIS, MARCH 28, 1939

TO THE STOCKHOLDERS OF CONTAINER CORPORATION OF AMERICA

We submit herewith the Annual Report of Container Corporation of America for the year ended December 31, 1938, including the Auditors' Certificate, a Consolidated Balance Sheet, a Summary of Consolidated Profit and Loss and Surplus Accounts and a tabulation of Funded Debt. To give you additional information in regard to your Company's operations for the past year, there are included in this report tabular comparisons, illustrations and further detailed comments.

FINANCIAL REVIEW

PROFIT AND LOSS. The consolidated net profit for 1938 was \$29,470 compared with \$1,784,105 for 1937. In each case, earnings are net after administrative charges, interest and provisions for depreciation, bad and doubtful accounts, local and Federal taxes.

These earnings are equivalent to \$.04 per share on each of the 781,253 outstanding shares of capital stock. Quarterly earnings per share were:

1st Quarter	loss	\$.07
2nd Quarter	loss	.08
3rd Quarter	profit	.02
4th Quarter (Including Year End Adjustments)	profit	.17

Selling, administrative and general expenses were curtailed \$279,207 compared with 1937 because it was apparent that volume and prices, and consequently profits, were suffering a serious decline.

Interest charges and amortization of bond discount and expense have been going down steadily as funded debt is being reduced.

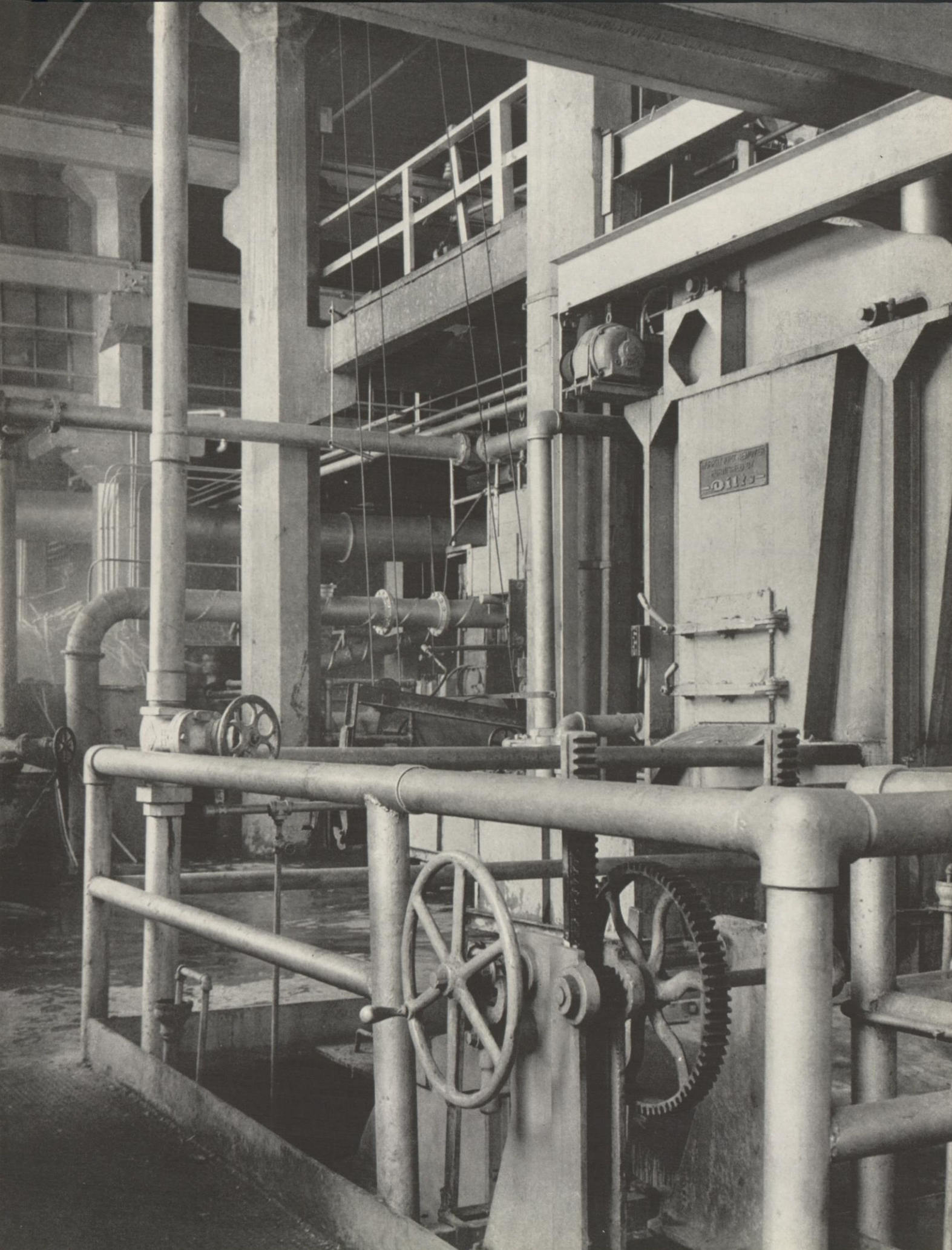
The provision for Federal income taxes of \$34,200 is higher than would normally be required on a net profit before taxes of \$63,670; this is primarily due to the fact that the

depreciation taken by your Company is higher than that allowed for income tax purposes; and because losses on certain fixed assets, which were obsoleted during the year, were charged against Profit and Loss but will not be deductible from earnings for tax determination.

A comparative summary of operating results for the last three years follows:

	1938	1937	1936
Consolidated net sales (including brokerage sales of subsidiary).....	\$18,705,290	\$25,268,327	\$22,525,268
Cost of sales (exclusive of depreciation).....	15,295,294	19,201,297	17,466,001
Gross profit (exclusive of depreciation).....	\$ 3,409,996	\$ 6,067,030	\$ 5,059,267
Provision for depreciation.....	1,261,111	1,216,800	1,172,734
Gross profit from operations.....	\$ 2,148,885	\$ 4,850,230	\$ 3,886,533
Selling, administrative and general expenses (exclusive of bad debts).....	1,748,504	2,027,711	1,791,599
Net profit from operations (exclusive of bad debts)...	\$ 400,381	\$ 2,822,519	\$ 2,094,934
Other charges:			
Provision for bad debts, less recoveries.....	\$ 11,891	\$ 120,871	\$ 9,742
Non-operating rental expense, etc.....	28,882	96,305	114,922
Flood loss at Cincinnati plant.....	—	60,393	—
Loss on capital assets retired.....	56,879	—	86,701
	\$ 97,652	\$ 277,569	\$ 211,365
	\$ 302,729	\$ 2,544,950	\$ 1,883,569
Other income:			
Purchase discounts, interest earned, etc.....	\$ 142,938	\$ 105,178	\$ 92,719
Rental income.....	30,644	36,714	29,592
Net profit on sales or retirements of capital assets.....	—	63,907	—
	\$ 173,582	\$ 205,799	\$ 122,311
Net profit before interest and Federal income taxes..	\$ 476,311	\$ 2,750,749	\$ 2,005,880
Interest charges, etc:			
Interest on first mortgage bonds.....	\$ 163,687	\$ 175,372	\$ 194,958
Interest on debentures.....	184,893	199,115	211,772
Amortization of bond discount and expense.....	39,018	39,227	42,769
Other interest, etc.....	25,043	24,930	14,439
	\$ 412,641	\$ 438,644	\$ 463,938
Net profit before Federal income taxes.....	\$ 63,670	\$ 2,312,105	\$ 1,541,942
Provision for Federal income taxes:			
Normal and excess profits taxes.....	\$ 34,200	\$ 389,100	\$ 230,500
Surtax on undistributed profits.....	—	138,900	24,500
	\$ 34,200	\$ 528,000	\$ 255,000
Net profit carried to earned surplus.....	\$ 29,470	\$ 1,784,105	\$ 1,286,942

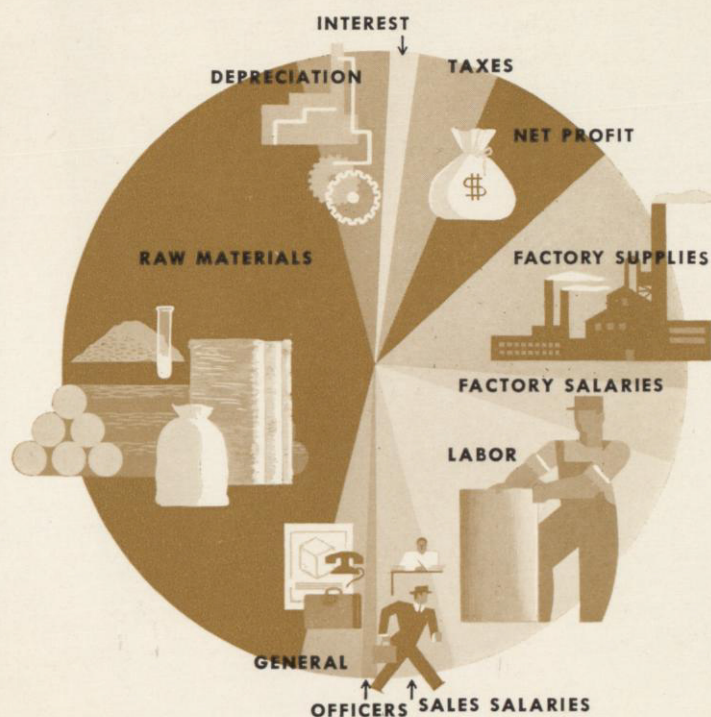
Right. New breaker beater (converter of waste paper) at the Ogden Avenue Mill. Its capacity is 125 tons per day.



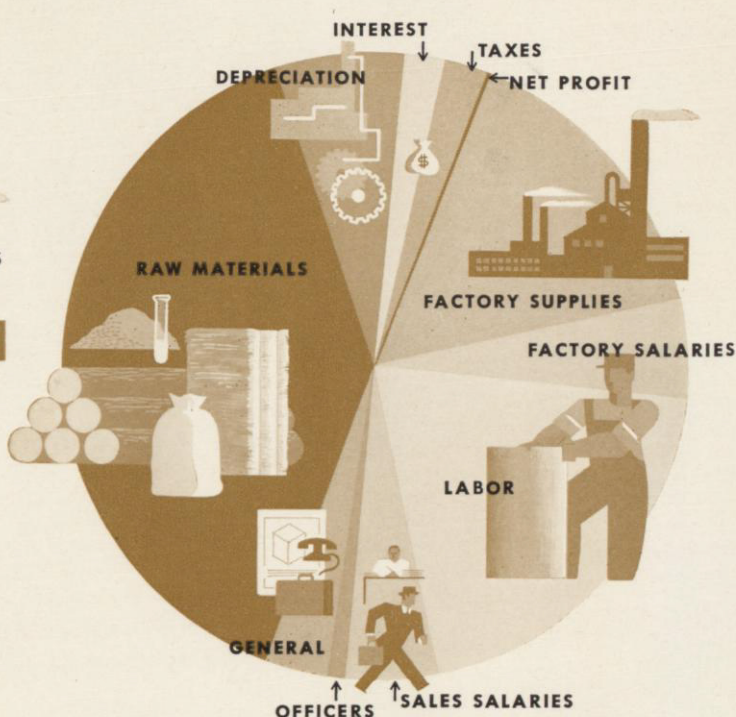
Profit and Loss was charged with depreciation of \$1,261,111 which was added to depreciation reserve as was also the depreciation reserve of \$14,224 accumulated against the properties of the Cleveland plant at the time of its acquisition March 1, 1938. Depreciation of \$115,576 previously reserved against assets sold or scrapped during the year was deducted from this account. The net addition of \$1,159,759 to the reserves for depreciation represents, therefore, the difference between the above mentioned additions and deductions.

The properties of the Corporation were very adequately maintained by the expenditure of \$827,894 for repairs and maintenance of buildings, machinery and equipment, and this whole amount was absorbed in cost of operations.

The following table and diagram give the relationships of raw materials, labor, administrative expense, interest charges, etc., to net sales.



1937



1938

	1938		1937	
Net sales.....	\$18,705,290	100.00%	\$25,268,327	100.00%
Raw materials.....	\$ 7,307,215	39.07%	\$10,599,504	41.95%
Factory supplies and expense.....	3,879,927	20.74	4,233,740	16.75
Labor.....	3,738,044	19.98	3,981,257	15.76
*Selling, administrative, and general expense....	1,642,924	8.78	2,031,259	8.03
Provision for depreciation.....	1,261,111	6.74	1,216,800	4.82
Provision for local and Federal taxes.....	472,977	2.53	1,022,245	4.05
Interest charges.....	373,622	2.00	399,417	1.58
Net profit.....	29,470	.16	1,784,105	7.06

*Includes other income and charges.

WORKING CAPITAL. Changes in working capital were as follows:

	1938	1937	Increase or Decrease(d)
CURRENT ASSETS:			
Cash in banks and on hand.....	\$1,031,969	\$1,650,344	\$618,375(d)
Customer's accounts and notes receivable, less reserves...	1,132,685	955,353	177,332
Notes receivable (secured by property sold).....	250,000	125,000	125,000
Miscellaneous receivables.....	91,998	52,763	39,235
Inventories.....	2,859,950	3,143,426	283,476(d)
Total Current Assets.....	<u>\$5,366,602</u>	<u>\$5,926,886</u>	<u>\$560,284(d)</u>
CURRENT LIABILITIES:			
Accounts payable.....	\$ 446,525	\$ 363,451	\$ 83,074
Accrued interest.....	20,892	22,849	1,957(d)
Accrued wages.....	58,438	57,965	473
Accrued taxes.....	288,110	325,983	37,873(d)
Provision for Federal taxes.....	34,200	528,000	493,800(d)
Sundry accruals.....	25,000	27,479	2,479(d)
Sinking-fund payments due within year.....	128,000	115,000	13,000
Total Current Liabilities.....	<u>\$1,001,165</u>	<u>\$1,440,727</u>	<u>\$439,562(d)</u>
Net Working Capital.....	<u>\$4,365,437</u>	<u>\$4,486,159</u>	<u>\$120,722(d)</u>
Current Ratio.....	5.36 to 1	4.11 to 1	

Cash on hand was slightly greater than all current liabilities, and the current ratio of 5.36 to 1 was the best in your Company's history.

While the small profit earned for the year was obviously very unsatisfactory, nevertheless, largely due to the substantial amount of \$1,261,111 of depreciation, your Company was enabled to make good financial progress as may be noted from the following:

1. Capital expenditures amounted to \$1,182,185 and included the following:

- (a) \$739,794 for improvements and additions to buildings, machinery and equipment.
- (b) \$118,207 for the purchase of timberland as a reserve raw material for the Fernandina pulp mill.
- (c) The Wabash, Ind., mill which had been under lease since May 25, 1933, with an option to purchase the land, buildings, machinery and equipment for \$900,000, was added to fixed assets by exercise of the purchase option, and the cash expended for this acquisition amounted to \$240,973; the difference between this and the option price had been previously paid in the form of rentals which applied against the purchase price. The cash payment was supplied out of funds previously accumulated in a special account which has been included under "Other Receivables and Investments (as Advances Under Contract)" and, therefore, did not affect working capital. Prior to this time, the rent for the lease of the Wabash mill had been paid and charged monthly to operating expense.

(d) \$79,961 was expended for the fixed assets of The United Paper Box Mfg. Co., of Cleveland, Ohio, and of The Falls Paper Box Company, of Cuyahoga Falls, Ohio. These fixed assets, together with current assets of \$95,934, current liabilities of \$15,775, and reserve for depreciation in the amount of \$14,224, were added to the respective balance sheet items of your Company as of March 1, 1938. Minority stock was eliminated partly by cash purchase and partly by a liquidating dividend.

2. Dividends in the amount of \$234,376 were paid on February 19, 1938 on the outstanding capital stock.

3. Funded debt was reduced by \$526,500. Some bonds were called and some bonds and debentures were purchased on the open market in anticipation and satisfaction of sinking fund requirements.

There follows a statement of application of funds which indicates the source of funds and their disposition:

Funds provided from the following sources:

Net decrease in working capital.....			\$ 120,723
Profit for year.....		\$ 29,470	
Add expense items not involving cash—			
Provision for depreciation.....	\$1,261,111		
Amortization of bond discount and expense.....	39,018		
Loss on property sold or retired.....	56,879	1,357,008	1,386,478
Sale of property.....			19,966
Decrease in other receivables and investments.....			361,038
Increase in reserve for contingencies (this account was subsequently eliminated by adjustments to surplus, capital surplus and provision for prior years Federal taxes).....			82,062
			<u>\$1,970,267</u>

Which were expended or accounted for as follows:

Net increase in deferred charges other than bond discount and expense.....			\$ 41,430
Dividends paid.....			234,376
Company's own bonds and debentures purchased and called	\$ 513,500		
Add-increase in current maturities.....	13,000	526,500	
Additions to plant and equipment.....	\$1,182,185		
Less reserve for depreciation on property acquired.....	14,224	1,167,961	
			<u>\$1,970,267</u>

We wish to call your attention to the next two double page tabulations. The first one is a balance sheet comparison of 1928 through 1938; the second sheet records the interest paid to bond and debenture holders and the dividends distributed on outstanding capital stock, both on the formerly outstanding preferred stocks and on A and B common stocks and, since 1935, on the one capital stock issue. From the balance sheet comparisons, you will note that the funded debt has been reduced \$4,051,500 over the eleven year period, the

Preferred stock eliminated, the original A and B stocks consolidated into one capital stock, the working capital increased by \$1,513,145 and the current ratio substantially improved, particularly over some of the depression years. The dividend record shows a total of \$4,357,259 paid over the eleven year period and interest payments to bond and debenture holders of \$4,971,325 or a total of \$9,328,584 distributed to all security holders during this period. Because of the wide fluctuations of earnings in the paper board and container industries, the dividend record has also fluctuated widely.

FUNDED OBLIGATIONS. Your Corporation had in its Treasury as of December 31, 1938, \$475,000 par value of debentures, or sufficient to fulfill sinking fund requirements for two years and five months.

The following table gives the funded debt position as of the end of the year compared with the end of the previous year:

	Dec. 31 1938	Dec. 31 1937	Increase or Decrease(d)
First Mortgage Sinking Fund 6% Bonds due June 15, 1946. .	\$2,648,500	\$2,758,000	\$109,500(d)
Fifteen Year 5% Debentures due June 1, 1943.	3,425,000	3,829,000	404,000(d)
Total Outstanding.	\$6,073,500	\$6,587,000	\$513,500(d)
Less current sinking fund requirements in excess of bonds in treasury:			
First Mortgage Sinking Fund 6% Bonds due June 15, 1946	\$ 128,000	\$ 115,000	\$ 13,000
	\$5,945,500	\$6,472,000	\$526,500(d)

PROVISION FOR PRIOR YEARS' FEDERAL INCOME TAXES IN DISPUTE.

A provision of \$500,000 has been set up for possible additional taxes and interest on Federal income tax returns from 1926 to date. This additional tax has been in dispute for sometime; it is not determinable when and how much tax and interest may become payable but it is believed that the estimated amount provided will be sufficient.

CAPITALIZATION. The 781,253 outstanding shares of capital stock of a \$20.00 par value were held by 7,667 individual stockholders while approximately 350 brokers and corporations increased the number to over 8,000 stockholders in all.

SURPLUS. The year's profit of \$29,470 was added to earned surplus; the dividend payment of \$234,376 was charged against earned surplus. To provide for the deferred liability of past years' income tax and interest, a charge of \$257,178 was made against earned surplus. Reserve for contingencies was charged with the amount required, namely \$242,822 to make up the total estimated liability of \$500,000. This was the remaining balance in reserve for contingencies after restoring \$288,355 to capital surplus.

CONTAINER CORPORATION OF AMERICA AND

CONSOLIDATED YEAR-END BALANCE SHEETS FOR ELEVEN YEAR

ASSETS

	1938	1937	1936	1935
Cash on hand and in banks.	\$ 1,031,969	\$ 1,650,344	\$ 1,147,362	\$ 1,131,576
Accounts and notes receivable-less reserves.	1,474,683	1,133,116	1,625,631	1,155,580
Inventories.	2,859,950	3,143,426	2,900,739	2,896,060
Total current assets.	<u>\$ 5,366,602</u>	<u>\$ 5,926,886</u>	<u>\$ 5,673,732</u>	<u>\$ 5,183,216</u>
Other receivables and investments.	1,487,517	1,848,555	149,754	90,563
Treasury stock at cost.	—	—	—	—
Land.	3,450,285	3,192,264	3,237,069	3,237,069
Buildings, machinery and equipment.	23,452,635	22,720,891	21,872,009	21,143,364
Reserve for depreciation.	8,922,908	7,763,149	7,738,397	6,760,214
Deferred charges.	387,994	385,583	438,647	433,644
Goodwill and patents.	1	1	1	1
Organization expense.	—	—	—	—
	<u>\$25,222,126</u>	<u>\$26,311,031</u>	<u>\$23,632,815</u>	<u>\$23,327,643</u>

LIABILITIES

Accounts payable.	\$ 446,525	\$ 363,451	\$ 1,305,003	\$ 758,558
Accrued interest, wages, taxes, etc.	392,440	434,276	415,636	329,066
Reserve for Federal income tax.	34,200	528,000	255,000	217,500
Sinking fund payments due within a year.	128,000	115,000	154,000	250,000
Total current liabilities.	<u>\$ 1,001,165</u>	<u>\$ 1,440,727</u>	<u>\$ 2,129,639</u>	<u>\$ 1,555,124</u>
Funded debt.	5,945,500	6,472,000	6,980,500	7,736,360
Provision for prior years Federal income taxes in dispute.	500,000	—	—	—
Reserve for contingencies.	—	449,114	434,114	417,614
Capital stock.	15,625,060	15,625,060	13,070,800	13,070,800
7% Preferred stock.	—	—	—	—
Class A common stock.	—	—	—	—
Class B common stock.	—	—	—	—
Capital surplus.	671,494	383,139	—	—
Earned surplus.	1,478,907	1,940,991	1,017,762	547,745
	<u>\$25,222,126</u>	<u>\$26,311,031</u>	<u>\$23,632,815</u>	<u>\$23,327,643</u>
Working capital.	<u>\$ 4,365,437</u>	<u>\$ 4,486,159</u>	<u>\$ 3,544,093</u>	<u>\$ 3,628,092</u>
Current ratio.	5.36 to 1	4.11 to 1	2.66 to 1	3.33 to 1

Note—Italics denote red figures.

SUBSIDIARY COMPANIES

PERIOD ENDED DECEMBER 31, 1938

1934	1933	1932	1931	1930	1929	1928
\$ 820,912	\$ 439,616	\$ 1,027,685	\$ 876,050	\$ 222,144	\$ 491,956	\$ 656,535
1,146,099	1,161,913	804,972	932,857	1,149,294	1,238,223	1,028,026
2,489,422	2,622,308	1,257,032	1,832,466	2,658,541	2,083,884	2,009,890
\$ 4,456,433	\$ 4,223,837	\$ 3,089,689	\$ 3,641,373	\$ 4,029,979	\$ 3,814,063	\$ 3,694,451
136,840	195,079	40,475	92,844	172,862	156,599	267,510
93,750	93,750	93,750	33,750	480,451	—	—
3,219,640	3,219,640	3,251,857	3,321,932	3,330,544	2,781,957	2,781,307
20,172,812	18,795,010	19,734,390	20,059,310	20,454,670	18,474,177	18,133,208
5,789,049	5,084,545	4,949,959	4,205,822	5,579,910	2,786,322	2,103,217
487,155	622,916	591,908	715,645	844,018	863,546	851,058
I	I	I	I	I	—	—
—	—	—	—	49,735	49,735	49,735
\$22,777,582	\$22,065,688	\$21,852,111	\$23,659,033	\$25,782,350	\$23,353,755	\$23,674,052

\$ 988,356	\$ 985,431	\$ 340,754	\$ 300,907	\$ 574,222	\$ 416,374	\$ 560,203
304,602	327,794	279,899	391,994	345,397	258,945	165,581
195,000	—	—	—	—	85,300	116,375
201,500	14,000	14,000	20,500	111,500	—	—
\$ 1,689,458	\$ 1,327,225	\$ 634,653	\$ 713,401	\$ 1,031,119	\$ 760,619	\$ 842,159
7,783,500	8,239,000	8,666,000	8,949,125	9,523,625	9,488,500	9,997,000
—	—	—	—	—	—	—
81,622	86,122	86,122	101,622	81,622	81,622	116,554
—	—	—	—	—	—	—
1,206,600	1,575,300	1,832,200	2,035,900	2,070,000	1,909,100	2,000,000
7,471,100	7,471,100	7,471,100	7,471,100	7,928,560	5,483,500	5,475,500
2,890,945	2,890,945	2,890,945	2,890,945	4,424,483	4,424,483	4,424,483
1,922,499	1,658,285	1,460,811	1,460,811	—	—	—
268,142	1,182,289	1,189,720	36,129	722,941	1,205,931	818,356
\$22,777,582	\$22,065,688	\$21,852,111	\$23,659,033	\$25,782,350	\$23,353,755	\$23,674,052
\$ 2,766,975	\$ 2,896,612	\$ 2,455,036	\$ 2,927,972	\$ 2,998,860	\$ 3,053,444	\$ 2,852,292
2.64 to 1	3.18 to 1	4.87 to 1	5.10 to 1	3.91 to 1	5.01 to 1	4.39 to 1

CONTAINER CORPORATION OF AMERICA

RECORD OF DIVIDENDS AND BOND AND DEBENTURE INTEREST PAID FOR
JANUARY 1, 1928 TO DECEMBER 31, 1938

	<u>1938</u>	<u>1937</u>	<u>1936</u>	<u>1935</u>	<u>1934</u>
DIVIDENDS PAID					
Preferred Stocks.....	—	—	—	\$422,310	—
Common Stocks.....	<u>\$234,376</u>	<u>\$ 860,876</u>	<u>\$ 816,925</u>	—	—
Total Dividends.....	<u>\$234,376</u>	<u>\$ 860,876</u>	<u>\$ 816,925</u>	<u>\$422,310</u>	—
BOND AND DEBENTURE INTEREST PAID.....					
	<u>\$346,005</u>	<u>\$ 374,340</u>	<u>\$ 422,459</u>	<u>\$438,871</u>	<u>\$438,170</u>
Total Dividends and Interest	<u>\$580,381</u>	<u>\$1,235,216</u>	<u>\$1,239,384</u>	<u>\$861,181</u>	<u>\$438,170</u>

II YEAR PERIOD

<u>1933</u>	<u>1932</u>	<u>1931</u>	<u>1930</u>	<u>1929</u>	<u>1928</u>	<u>Total</u>
—	—	\$ 37,100	\$ 129,780	\$ 143,150	\$ 212,424	\$ 944,764
—	—	<u>114,403</u>	<u>421,555</u>	<u>339,597</u>	<u>624,763</u>	<u>3,412,495</u>
—	—	<u>\$151,503</u>	<u>\$ 551,335</u>	<u>\$ 482,747</u>	<u>\$ 837,187</u>	<u>\$4,357,259</u>
<u>\$458,685</u>	<u>\$478,270</u>	<u>\$509,901</u>	<u>\$ 529,549</u>	<u>\$ 523,250</u>	<u>\$ 451,825</u>	<u>\$4,971,325</u>
<u><u>\$458,685</u></u>	<u><u>\$478,270</u></u>	<u><u>\$661,404</u></u>	<u><u>\$1,080,884</u></u>	<u><u>\$1,005,997</u></u>	<u><u>\$1,289,012</u></u>	<u><u>\$9,328,584</u></u>

OPERATIONS

The following table sets forth the number of tons produced in the mills and the number of tons of finished product shipped with comparisons for the last seven years.

	Tons Produced in Mills	Tons Finished Product Shipped
1932.....	252,464	281,423
1933.....	299,346	320,961
1934.....	300,424	312,830
1935.....	373,399	382,381
1936.....	428,627	441,086
1937.....	391,270	390,496
1938.....	346,616	361,820

Again, the laboratories and research department of your Company did an extensive amount of work testing raw materials, semi-finished and finished products. It is particularly important in this business not only to have a continuous improvement of quality of product and cost of manufacture but also to develop new designs and uses.

The art department of your Company has been of valuable assistance in making new and more attractive designs for both old and new products and old and new customers.

Some of the primary capital expenditures for the year were as follows:

PHILADELPHIA—A new wide, high-speed corrugator and auxiliary equipment of the newest design was installed.

CINCINNATI—The box shop was remodeled and two new low cost boilers for heating and furnishing steam for the box operations were installed.

CLEVELAND—Improvements were made to the leasehold property where corrugated, folding and set-up boxes are manufactured.

CHICAGO OGDEN AVE.—A breaker beater and refiner were installed.

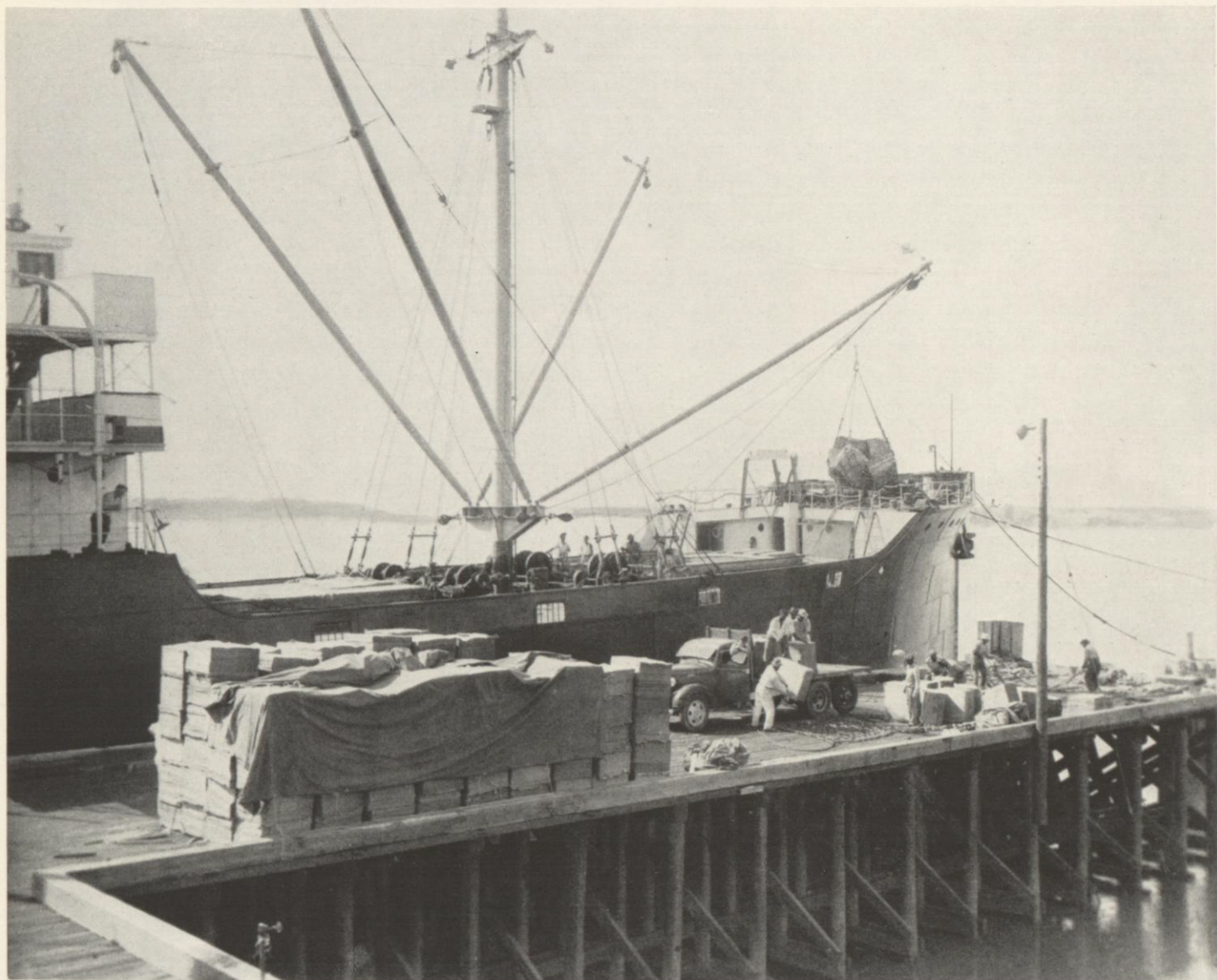
WABASH—Suction drum and refiner were added to the paper mill equipment.

PAPERSTOCK DIVISION—Tractors and trailers of the newest type and design were added in both Chicago and Philadelphia.

FERNANDINA—Reserve timber land was acquired in the amount of approximately 22,000 acres for a cash expenditure of \$118,207. Also final construction of the pulp mill was completed during the year with an expenditure of \$153,794.

You will be interested to know that the new Fernandina pulp mill which completed its first year of active operations produced from the start commercial quality sulphate pulp; this is being satisfactorily used by your Company's paper mills as well as by a number of outside purchasers. The new pulp mill quickly developed a capacity output somewhat higher than was anticipated. Its costs have been satisfactory and in fact have been sufficiently low to enable your Company over the past year to use its product at no disadvantage as against purchasing outside pulp even though the selling price of sulphate pulp

Right, above: Pulp being shipped from Fernandina. Below, left: Arriving at the Ogden Mill, Chicago; right: at dock in Philadelphia.



has drastically declined more than \$35.00 a ton since the time at which construction at Fernandina was begun. During the various recent periods when war fears gripped the world, it has been a reassuring feeling to know that no matter what happened in Europe, your Company's important requirements of sulphate pulp would continue to be available from Fernandina, Fla., through the operation of this mill and were not dependent upon importations from across the seas.

With the additions and improvements to machinery, buildings and equipment and the previously mentioned substantial amount of \$827,894 spent for repairs and maintenance of properties, the physical condition of the Company's plants is very good. However, as stated in previous annual reports, it will continue to be necessary to keep properties up to highest standards by annual expenditures for repairs and maintenance and for installation of newly designed and improved machinery as it is developed and becomes available, as well as to continue to replace present machinery as and when it becomes necessary.

SALES

Net sales for the year amounted to \$18,705,290, or a decrease in dollar volume of 26 per cent from the previous year. The major part of this decrease is accounted for by sharply lower prices and only secondarily by decreased unit volume which declined only 7 per cent.

Your Company employs at the present time 101 active salesmen, including sales managers. In a year of decreasing volume, it appeared inadvisable to reduce the number of sales representatives and, in fact, during the year a number of men who previously had been engaged by the Company for sales training were added to the active sales staff and were assigned territories.

Every year and so also in 1938 a large number of new customers were added and new products put on the market. Illustrations of some of these new developments are contained in this report and give a general idea of the large diversification of products and their uses.

AFFILIATED COMPANIES

The Sefton Fibre Can Company of St. Louis, Mo., engaged in the manufacture of paper cans, was able to earn a small profit for the year. Its financial position, figures of which are not included in the consolidated statements of the parent company, is extremely strong with current ratio of 11 to 1, a working capital of \$144,459 and cash on hand equivalent to three times its current liabilities. It has been considered advisable to use available funds for increase of working capital, improvements of machinery and equipment, and gradual retirement of some part of the outstanding preferred stock held by others than your Company; of an original issue of \$200,000 of 5 per cent preferred stock, a par value of \$50,000 has been retired thus far. Common dividends cannot be paid until additional preferred stock has been retired and the working capital increased until it is equal to twice the outstanding preferred stock.

Right, above: Photographic mural showing the company's plants and products in the reception room of the Cleveland factory on Euclid Avenue. Below: The building.

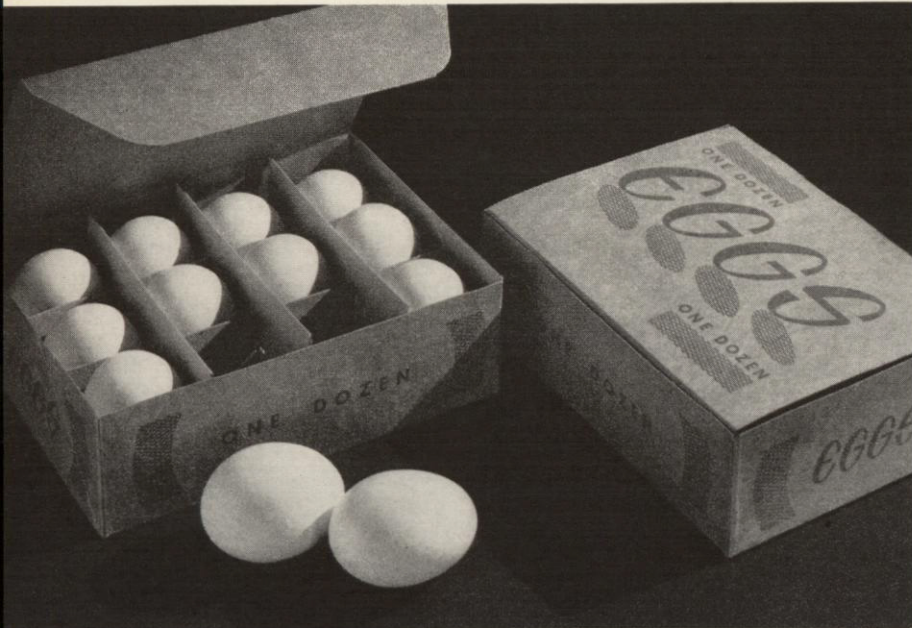
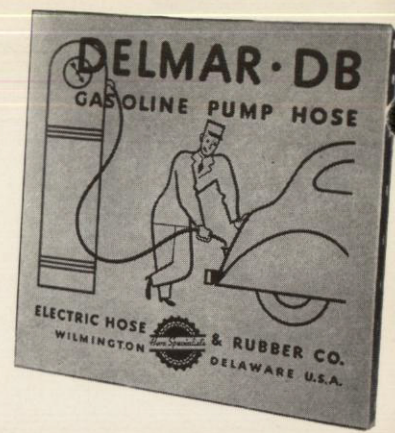




Frozen fowl

OLD AND NEW USES FOR PAPERBOARD CONTAINERS

The 8th Annual Wolf Award Committee considered the carton on the right the most effective shipping container in the classification of "printing and color to further good design."



Eggs



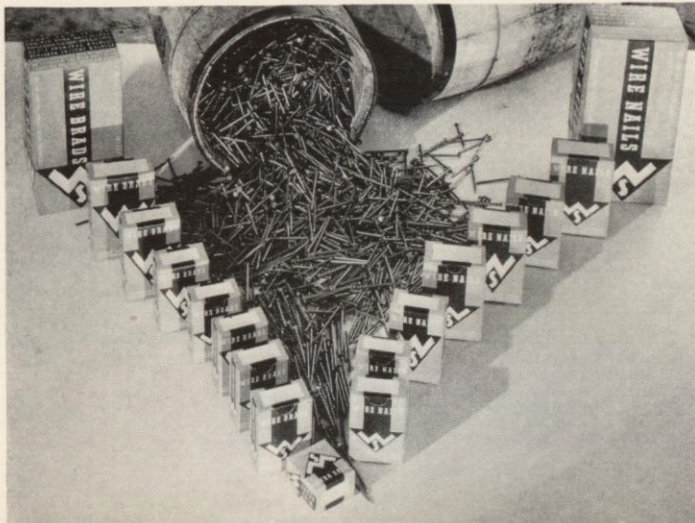
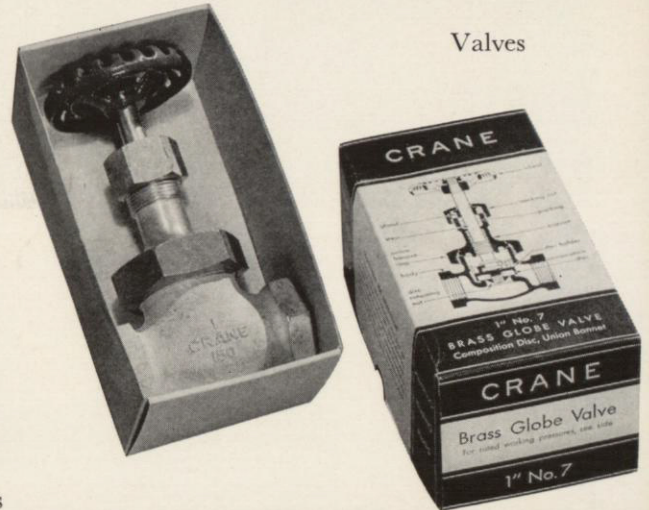
Valves



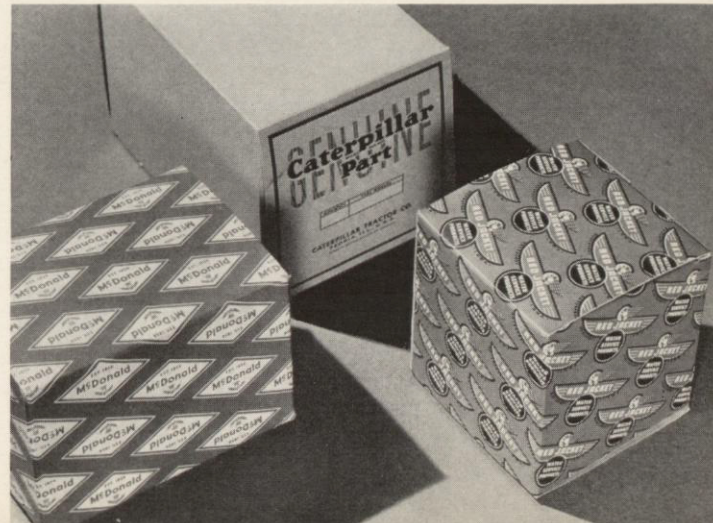
Frozen vegetables and fish



Parts



Nails



SUBSIDIARIES

The wholly owned paper stock subsidiaries with plants operating in Philadelphia, Kal-amazoo and Chicago earned a very small profit for the year. The assets and liabilities, as well as earning results of these subsidiaries, are included in the consolidated balance sheet and income account in this report.

For reasons of simplification and tax savings two of the subsidiaries, Kraft Corporation of America and Chicago Mill Paper Stock Company ceased active operations during the year.

PAPERBOARD AND CONTAINER INDUSTRY CONDITIONS

During the first half of the year, the industries' volume experienced a marked falling-off from the average level of the previous year. As a result thereof, and in harmony with general business experience, selling prices declined but, unfortunately, much more drastically than in most other industrial lines. During the second half of the year, a gradual but consistent improvement in volume occurred but unhappily selling prices continued their drastic decline. As a result of this sharp downward trend of market levels, the selling price of many of your Company's products at the end of the year was only 50 per cent of the average price of 1926. During the first quarter of the current year some very low priced orders are still being shipped. While it is always hazardous to attempt any predictions, it does seem probable that with a continuation of present satisfactory volume, a correction of the price trend may be expected and in fact, has already taken place in most of the divisions of both the paperboard and the container industries. If this improvement continues, better earnings will result.


ORGANIZATION

There were no major organization changes during the year. Again, it is a pleasure to voice the appreciation of the Board of Directors for the conscientious and loyal efforts of the employees for the past year.

In the fourth quarter of last year, a questionnaire was sent to the stockholders asking them to give (anonymously if they preferred) some information about themselves. The very large response was gratifying. Your Management very much appreciates your cooperation in this regard. The information derived from these questionnaires was compiled and used as a basis for the enclosed copy of the Jobholders Report, which we believe will give every worker a better and more accurate idea of the Company for which he is working, who the actual owners of the business are, and many other facts which we feel will prove interesting to the jobholder and we hope to you also, who were good enough to make the Jobholders Report possible.

Submitted on behalf of the Board of Directors.

Respectfully,

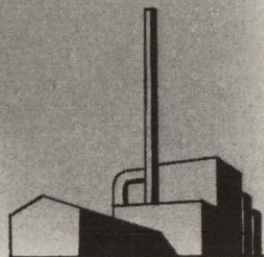
A handwritten signature in dark ink, appearing to read "Nathan Leopold", with a stylized flourish extending to the right.

President

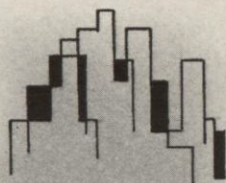
RAW MATERIALS

MILLS

PAPERBOARD



PULP FROM FERNANDINA AND ABROAD
WASTE PAPER FROM LARGE CITIES



PHILADELPHIA

CHICAGO • COATED BOARD

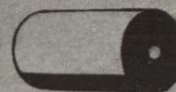
CHICAGO • OGDEN

WABASH

CIRCLEVILLE

CARTHAGE

PAPERBOARD



STRAW FROM MIDWEST FARMS



RAW MATERIALS

MILLS

PAPERBOARD

SOURCES AND FLOW OF PRIMARY MATERIALS THROUGH MILLS

FACTORIES

PRODUCTS

USES

CHICAGO

PHILADELPHIA

CINCINNATI

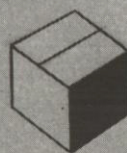
ANDERSON

ST. LOUIS

CLEVELAND

NATICK

OTHER PAPERBOARD CONVERTERS



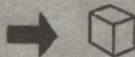
CORRUGATED
CONTAINERS



SOLID FIBRE
CONTAINERS



FOLDING CARTONS



FOOD PAILS



SET-UP BOXES



FIBRE CANS

Automobile
Accessories
Bakery Goods
Beer
Book Binders,
Publishers, Printers
Boots and Shoes
Building Materials,
Supplies and
Fixtures
Canned Foods
Caps and Closures
Caskets and Vaults
Cereal Products
China, Pottery and
Glass Tableware
Clothing
Coffee, Tea,
Cocoa and Spices

Confectionery and
Nuts
Chemicals and
Naval Stores
Dairy Products
Electrical
Appliances and
Supplies
Explosives and
Ammunition
Fruits and Vegetables
Furniture
Glass
Glass Bottles
Hardware and Tools
Household Utilities
Linens and Domestics
Liquor and Wine
Luggage
Machines and
Machine Parts

Matches
Mattresses and
Springs
Meat Packing
Musical Instruments
Notions
Paint and Varnish
Paper Mill Products
Petroleum Products
Pharmaceuticals,
Cosmetics and
Druggist Prepara-
tions
Photographic
Apparatus and
Supplies
Radios and
Accessories
Refrigerators
and Accessories
Rubber Goods
Sanitary Ware
and Plumbers'
Supplies

Soaps and Cleansers
Soft Drinks
Spices
Sporting Goods
Stoves and
Accessories
Sugar (Beet and
Cane)
Textiles
Tobacco Products
Toys and Games
Vegetable Oil
Products
Wholesale
and Retail
Establishments

FACTORIES

PRODUCTS

USES

CONTAINER CORPORATION OF AMERICA

CONSOLIDATED BALANCE SHEET

ASSETS

CURRENT ASSETS:

Cash in banks and on hand.....	\$ 1,031,969.24	
Customers' accounts and notes receivable.....	\$ 1,225,162.09	
Less—Reserve for doubtful accounts and allow- ances.....	<u>92,476.84</u>	1,132,685.25
Notes receivable (secured by property sold) due in 1939.....		250,000.00
Sundry current receivables.....		91,997.60
Inventories of raw materials, work in process, finished goods and supplies; quantities and condition determined by the companies; priced at the lower of cost or market.....	<u>2,859,950.34</u>	
Total current assets.....		\$ 5,366,602.43

OTHER RECEIVABLES AND INVESTMENTS:

Notes receivable (secured by property sold) maturing \$125,000.00 semiannually from January 1, 1940 to July 1, 1943.....	\$ 1,000,000.00	
Advances under contract.....	365,963.69	
Other receivables and investments.....	<u>121,553.23</u>	1,487,516.92

PLANT AND EQUIPMENT—stated at amounts recorded at dates of acquisition (including acquisition for stock) based, in part, on appraisals, plus additions since at cost, less reserve for depreciation:

Land.....	\$ 3,450,284.54	
Buildings, including leasehold improvements... \$ 8,580,210.11		
Machinery, equipment, etc.....	<u>14,872,424.72</u>	
	\$23,452,634.83	
Less—Reserve for depreciation.....	<u>8,922,907.83</u>	<u>14,529,727.00</u>
		17,980,011.54

DEFERRED CHARGES TO FUTURE OPERATIONS:

Unamortized debt discount and expense.....	\$ 195,609.15	
Prepaid insurance.....	132,204.81	
Other prepaid expenses, etc.....	<u>60,180.56</u>	387,994.52

GOODWILL AND PATENTS—at nominal value.....

1.00
<u>\$25,222,126.41</u>

AND SUBSIDIARY COMPANIES

• DECEMBER 31, 1938

LIABILITIES

CURRENT LIABILITIES:

Accounts payable.....	\$ 446,525.08	
Accrued interest, wages, taxes, etc.....	392,440.32	
Provisions for 1938 Federal income taxes (subject to final determination by Treasury Department).....	34,200.00	
Sinking fund payments due 1939.....	128,000.00	
Total current liabilities.....		\$ 1,001,165.40

PROVISION FOR PRIOR YEARS' FEDERAL INCOME TAXES IN DISPUTE....	500,000.00
--	------------

FUNDED DEBT—less sinking fund payments due in 1939 shown above, and bonds held in treasury (see accompanying summary):

First mortgage sinking fund 6% bonds, due June 15, 1946.....	\$ 2,520,500.00	
Fifteen year 5% debentures, due June 1, 1943.....	3,425,000.00	5,945,500.00

CAPITAL STOCK AND SURPLUS:

Capital stock—

Authorized 1,000,000 shares of \$20 par value

Outstanding 781,253 shares.....	\$15,625,060.00	
Capital surplus (see accompanying summary).....	671,494.30	
Earned surplus (see accompanying summary).....	1,478,906.71	17,775,461.01

\$25,222,126.41

CONTAINER CORPORATION OF AMERICA AND SUBSIDIARY COMPANIES

SUMMARY OF CONSOLIDATED PROFIT AND LOSS FOR THE YEAR ENDED DECEMBER 31, 1938

CONSOLIDATED NET SALES (including brokerage sales of subsidiary) ..				\$18,705,289.67
COST OF SALES (exclusive of depreciation)				<u>15,295,294.15</u>
Gross profit (exclusive of depreciation)				\$ 3,409,995.52
PROVISION FOR DEPRECIATION				<u>1,261,110.60</u>
Gross profit from operations				\$ 2,148,884.92
SELLING, ADMINISTRATIVE AND GENERAL EXPENSES (exclusive of bad debts)				<u>1,748,504.14</u>
Net profit from operations (exclusive of bad debts)				\$ 400,380.78
ADD:				
Purchase discounts, interest earned, etc.	\$	142,938.25		
Rental income		<u>30,643.96</u>		
		\$ 173,582.21		
Less—				
Loss in sales or retirements of capital assets.	\$	56,878.65		
Nonoperating rental expense, etc.		<u>28,882.28</u>		
Provision for bad debts, less recoveries		<u>11,891.39</u>	97,652.32	<u>75,929.89</u>
Net profit before interest and Federal income taxes				\$ 476,310.67
INTEREST CHARGES, ETC.:				
Interest on first mortgage bonds	\$	163,687.08		
Interest on debentures		<u>184,892.40</u>		
Amortization of bond discount and expense		<u>39,018.34</u>		
Other interest, etc.		<u>25,042.66</u>	412,640.48	
Net profit before Federal income taxes				\$ 63,670.19
PROVISION FOR FEDERAL INCOME TAXES				<u>34,200.00</u>
Net profit carried to earned surplus				<u>\$ 29,470.19</u>

CONTAINER CORPORATION OF AMERICA AND SUBSIDIARY COMPANIES

SUMMARY OF CAPITAL AND EARNED SURPLUS FOR THE YEAR ENDED DECEMBER 31, 1938

CAPITAL SURPLUS:

Balance at December 31, 1937 arising from excess of cash received over par value of capital stock issued therefor.....	\$ 383,139.00
Reversal of appropriation for contingencies reserve previously charged hereto (remaining portion of reserve for contingencies transferred to provision for Federal income taxes in dispute).....	<u>288,355.30</u>
Balance at December 31, 1938.....	<u>\$ 671,494.30</u>

EARNED SURPLUS:

Balance at December 31, 1937.....	\$ 1,940,990.75
Add—Net profit for year (per accompanying summary).....	<u>29,470.19</u>
	\$ 1,970,460.94
Deduct—	
Cash dividends paid (30 cents per share).....	\$ 234,375.90
Additional provision for prior years' Federal income taxes in dispute.....	<u>257,178.33</u>
	<u>491,554.23</u>
Balance at December 31, 1938 (see note).....	<u>\$ 1,478,906.71</u>

NOTE: According to restrictions in the 5% debenture trust agreement, surplus of subsidiaries as at January 1, 1928 amounting to \$367,184.86 is not available for cash dividends.

CONTAINER CORPORATION OF AMERICA

STATEMENT OF FUNDED DEBT—DECEMBER 31, 1938

PARTICULARS	First Mortgage Sinking Fund 6% Bonds Due June 15, 1946 (Note 1)	Fifteen-Year 5% Debentures Due June 1, 1943 (Note 2)	Total
AUTHORIZED.....	\$10,000,000.00	\$ 6,000,000.00	\$16,000,000.00
Less—Unissued.....	5,000,000.00	—	5,000,000.00
	<u>\$ 5,000,000.00</u>	<u>\$ 6,000,000.00</u>	<u>\$11,000,000.00</u>
DEDUCT:			
Redeemed.....	\$ 2,351,500.00	\$ 2,100,000.00	\$ 4,451,500.00
In treasury—			
For 1939 sinking fund requirements.....	—	200,000.00	200,000.00
In excess of 1939 sinking fund requirements (Note 4).....	—	275,000.00	275,000.00
	<u>\$ 2,351,500.00</u>	<u>\$ 2,575,000.00</u>	<u>\$ 4,926,500.00</u>
BALANCE DECEMBER 31, 1938.....	\$ 2,648,500.00	\$ 3,425,000.00	\$ 6,073,500.00
DEDUCT—Sinking fund payment due in 1939 in excess of treasury bonds available; included in current liabilities.....	128,000.00	—	128,000.00
Balance payable subsequent to December 31, 1939..	<u>\$ 2,520,500.00</u>	<u>\$ 3,425,000.00</u>	<u>\$ 5,945,500.00</u>

NOTES:

- (1) The trust indenture requires semiannual sinking fund payments of \$62,500.00 (or a deposit of an equivalent principal amount of bonds) and in addition, annually on May 1, an amount equivalent to 20% of the net profits for the preceding year; such additional amount not to exceed \$125,000. Under these terms, a sinking fund payment of \$128,000.00 must be made in 1939.
- (2) The trust indenture requires semiannual sinking fund payments sufficient to redeem \$100,000.00 principal amount of debentures or deposit of \$100,000.00 principal amount thereof.
- (3) The entire capital stock, except directors' shares of Chicago Mill Paper Stock Company, a subsidiary, is pledged with the trustees under the first mortgage bonds.
- (4) The fifteen year 5% debentures held in the treasury include \$11,000 principal amount deposited in escrow.

ARTHUR ANDERSEN & Co.

135 SOUTH LA SALLE STREET
CHICAGO

To the Board of Directors,

Container Corporation of America:

We have made an examination of the consolidated balance sheet of CONTAINER CORPORATION OF AMERICA AND SUBSIDIARY COMPANIES as at December 31, 1938 and of the summaries of consolidated profit and loss and surplus for the year ended that date. In connection therewith, we examined or tested accounting records of the companies and other supporting evidence and obtained information and explanations from officers and employees of the companies; we also made a general review of the accounting methods and of the operating and income accounts for the year; we did not make a detailed audit of the transactions.

In our opinion, based upon such examination, the accompanying consolidated balance sheet and related summaries of consolidated profit and loss and surplus fairly present, in accordance with accepted principles of accounting consistently maintained by the companies during the year under review, the financial position of the companies at December 31, 1938 and the results of their operations for the year ended that date.

Arthur Andersen & Co.

Chicago, Illinois,

February 16, 1939.

THE LAKESIDE PRESS
R. R. DONNELLEY & SONS COMPANY
CHICAGO



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